

Message Text

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TAGS: ETRA, EFIN, EMIN, UR, GW, COMECON

SUBJECT: FRG CONTRACTS FOR KURSK STEEL COMPLEX MOVING INTO
HIGH GEAR

1. SUMMARY: FOLLOWING ARRIVAL IN MOSCOW FROM FRG OF FOUR
METRIC TONS OF DOCUMENTS, CHAIRMEN OF SIX FRG FIRMS INVOLVED
IN CONSTRUCTION OF KURSK STEEL COMPLEX HAVE MET WITH SOVIET
OFFICIALS TO ARRANGE FOR DELIVERY AND INSTALLATION OF EQUIPMENT
OVER NEXT FOUR YEARS. THE KURSK COMPLEX WILL INCLUDE FIVE
SEPARATE PLANTS AND WILL BE MOST MODERN SPECIAL STEEL COMPLEX

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IN WORLD ACCORDING TO FRG EXPERTS. TOTAL COST, INCLUDING

SOVIET-BUILT INFRASTRUCTURE, WILL COME CLOSE TO TEN BILLION DOLLARS. END SUMMARY.

2. OVER THE PAST SEVERAL DAYS (JULY 22 - 24) THE SOVIET FOREIGN TRADE MINISTRY IN MOSCOW HAS BEEN THE SITE OF AN IMPORTANT MEETING BETWEEN TOP OFFICIALS IN SOVIET MINISTRIES FOR FERROUS METALLURGY AND CONSTRUCTION AND THE CHAIRMEN OF SOME OF THE FRG'S LEADING INDUSTRIAL CORPORATIONS - KRUPP, SALZGITTER, DEMAG, MANNESMANN, KORF STEEL AND SIEMENS. THE OCCASION HAS BEEN THE FORMAL PRESENTATION TO THE SOVIET GOVERNMENT OF ALL NECESSARY DOCUMENTATION FOR FRG CONSTRUCTION OF PHASES I AND II OF THE KURSK STEEL COMPLEX WHICH WILL BE LOCATED IN THE VICINITY OF THE TOWN OF STARÝ OSKOL', NEAR KURSK AND ABOUT 280 MILES SOUTHEAST OF MOSCOW.

3. IN A COUNTRY WHERE NEW RECORDS FOR SIZE ARE A REGULAR EVENT, THE KURSK PROJECT APPEARS DESTINED TO SET SOME NEW RECORDS IN ITS OWN SPECIAL FIELD. THE DOCUMENTATION, WHICH ARRIVED IN MOSCOW JULY 21. IN TWO TRUCKS, CONSISTS OF ABOUT 25,000 ITEMS WEIGHING FOUR METRIC TONS. IT HAS BEEN UNDER PREPARATION SINCE THE SPRING OF 1974 WHEN AGREEMENT ON FRG CONSTRUCTION OF PHASE I OF THE COMPLEX FOR A CASH PAYMENT OF DM 2.5 BILLION WAS REACHED IN A SPECIAL AGREEMENT BETWEEN BREZHNEV AND THEN CHANCELLOR WILLY BRANDT. MAIN PURPOSE OF LAST WEEK'S MEETING WAS TO DISCUSS PLANS FOR DELIVERY OF EQUIPMENT AND INSTALLATION FOR THIS PROJECT WHICH WILL NOT BE COMPLETED UNTIL 1980.

4. FRG EMBASSY ECONOMIC OFFICER HAS PROVIDED EMBASSY WITH FOLLOWING ADDITIONAL DETAILS ON KURSK WHICH SUPPLEMENT LIMITED INFORMATION AVAILABLE IN PRESS.

(A) DOCUMENTATION. MOST OF DESIGN AND PLANNING WORK WAS SUPERVISED BY 17-MAN JOINT SOVIET-GERMAN GROUP IN ESSEN, WHICH MAINTAINED CLOSE CONTACT WITH SOVIET PURCHASING MISSION IN KOELN. ALL DOCUMENTS ARE IN GERMAN AND RUSSIAN. TOTAL COST OF DOCUMENTATION, WHICH TOOK MORE THAN TWO YEARS TO PREPARE AND WAS COMPLETED ON SCHEDULE, WAS DM 100 MILLION. ALMOST ALL OF THIS HAS BEEN PAID IN CASH.

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(B) TOTAL COST. BECAUSE OF INFLATION AND OTHER FACTORS (MAINLY LAST-MINUTE SOVIET REQUESTS FOR MORE ADVANCED TYPES OF EQUIPMENT), TOTAL PROJECT COST HAS MOVED SHARPLY UPWARDS FROM ORIGINAL DM 2.5 BILLION FIGURE. IT IS NOW IN REGION OF MORE THAN DM FIVE BILLION (U.S. DOLLARS 1.94 BILLION). SOURCE BELIEVED, BUT COULD NOT CONFIRM, THAT SOME OF THIS AMOUNT INCLUDES WORK ORIGINALLY PLANNED FOR PHASE II. THE DM FIVE BILLION COVERS ONLY IMPORTED EQUIPMENT AND INSTALLATION COSTS.

SUPPORT INFRASTRUCTURE FOR PROJECT, WHICH IS NOW BEING BUILT BY SOVIETS, WILL COST MORE THAN FIVE BILLION RUBLES (U.S. DOLS 6.6 BILLION). SOURCE INSISTED THAT, PER BREZHNEV-BRANDT AGREEMENT, FRG WILL RECEIVE CASH FOR ALL DELIVERIES. (COMMENT. EMBASSY HAD EARLIER HEARD THAT SOVIETS WERE DEMANDING CREDIT TERMS FOR PHASE II AND WE BELIEVE THAT SOME FORM OF CREDIT ARRANGEMENT FOR AT LEAST PART OF THIS SECTOR MAY STILL BE POSSIBILITY. END COMMENT.)

(C) DELIVERY AND INSTALLATION. EARLY IN AUGUST 140 FRG EXPERTS AND TECHNICIANS WILL ARRIVE IN USSR TO WORK OUT FINAL DETAILS FOR DELIVERIES OF EQUIPMENT. THEY WILL WORK IN MOSCOW AND IN STARIY OSKOL'. ACTUAL DELIVERIES WILL BEGIN IN SEPTEMBER/OCTOBER. BY END OF 1977 MORE THAN 3000 WEST GERMANS ARE EXPECTED TO BE WORKING IN STARIY OSKOL' - KURSK REGION. FRG GOVERNMENT HAS ALREADY APPROACHED SOVIETS REGARDING POSSIBILITY OF A SPECIAL AGREEMENT TO COVER CONSULAR PROBLEMS, HOUSING, CULTURAL ACTIVITIES AND IMPORT PRIVILEGES. THERE HAS BEEN NO SOVIET RESPONSE AS YET. INTENSIVE NEGOTIATIONS ARE ALSO UNDERWAY REGARDING PERFORMANCE GUARANTEES, PENALTY CLAUSES. SOVIETS WANT EVERY PHASE OF PROJECT COVERED BY VERY EXTENSIVE GUARANTEES, AND, SOURCE IMPLIED, ARE BEING UNREASONABLE IN THEIR DEMANDS.

(D) MAIN FEATURES OF COMPLEX WILL BE AN IRON-ORE PELLETIZING PLANT (ANNUAL CAPACITY 7.3 MILLION TONS); A DIRECT REDUCTION PLANT PRODUCING IRON SPONGE (ANNUAL CAPACITY 5 MILLION TONS); A DRAWING MILL (3.75 MILLION TONS); ROLLING MILL (1.7 MILLION TONS); ROLLING MILL FOR SHEET METAL (1.2 MILLION TONS). ALL TONS ARE METRIC. TOTAL GROUND AREA WILL BE CLOSE TO TEN SQUARE KILOMETERS, AND POPULATION OF NEW CITY IS EXPECTED TO BE MORE THAN 300,000 IN EARLY 1980'S. FRG ENGINEERS RECENTLY VISITING MOSCOW HAVE ALLEGED LIMITED OFFICIAL USE

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THAT WHEN COMPLETED COMPLEX WILL BE MOST MODERN IN WORLD FOR PRODUCTION OF SPECIAL STEELS.

5. COMMENT: IN ADDITION TO PROVIDING USSR WITH MOST MODERN STEEL TECHNOLOGY, KURSK PROJECT MUST ALMOST CERTAINLY BE LARGEST WESTERN PROJECT EVER UNDERTAKEN IN USSR, SURPASSING TOGLIATTI AUTOMOBILE PLANT WHICH PREVIOUSLY HELD RECORD. WHEN COST OF IMPORTED COMPONENT IS ADDED TO COST OF INFRASTRUCTURE TOTAL COMES CLOSE TO TEN BILLION DOLLARS.
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